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ANNEX: Panama Still Committed to Canal Talks

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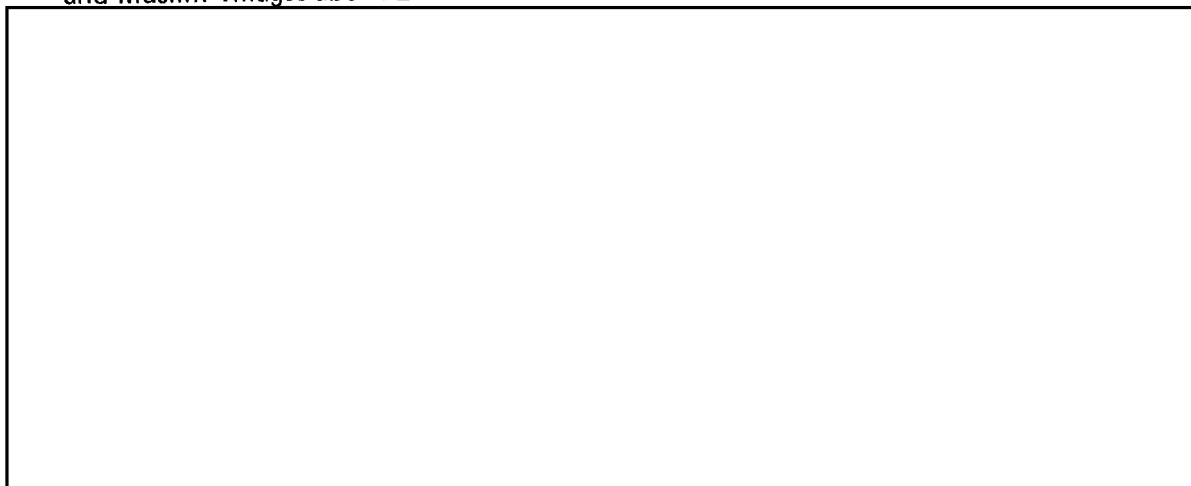
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LEBANON

The security situation in Beirut continued to deteriorate last evening. Casualties are reported high, and damage is said to be extensive. Fighting also continued yesterday in the Tripoli-Zagharta area and was reported to have spread to Christian and Muslim villages about 20 miles north of Tripoli.

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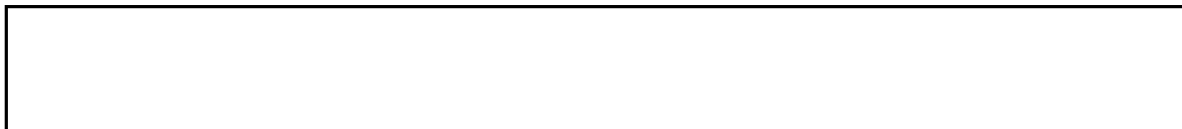


Prime Minister Karami last night publicly admitted that Lebanon's security forces cannot control the situation. He continued, however, to rule out the use of the Lebanese army. The government believes that leftist leader Kamal Jumblatt and Phalanges Party head Pierre Jumayyil can no longer control their followers. Groups of both Christians and Muslims were said to be taking to the streets in undisciplined gangs heedless of the instructions of their titular leaders.

The initial response to Kuwait's call for a foreign ministers' conference has been generally favorable. Egypt, Morocco, and Tunisia have supported it, and the Sudanese ambassador to Lebanon is expected to recommend that his government approve. The Syrians have declined comment.

The reaction of the PLO and its chief, Yasir Arafat, is not known, but "Palestinian sources" in Beirut reportedly oppose a conference "because they consider the problem to be purely Lebanese." Lebanese leftists are also reported to have expressed opposition, declaring that the fighting is an internal matter.

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MOROCCO

King Hassan, in remarks to the diplomatic corps in Rabat on October 8, reiterated a promise he made in August to await the forthcoming advisory opinion by the International Court of Justice before resorting to force in Spanish Sahara.

Hassan said he would inform his countrymen of the course of action Morocco will take once the court's opinion—which may be released soon—is known. Hassan added that he expected support from other Arab states in return for what Morocco provided during the October war and in subsequent peace negotiations. He also appealed to African states, reminding them that territorial integrity and national liberation were important concepts in their past.

The King's remarks have eased somewhat the atmosphere of tension, but he has not abandoned his year-end deadline or his threat to use force if necessary. If the court's opinion is ambiguous or unfavorable to Morocco, Hassan probably will initiate some form of military action in Spanish Sahara. On the other hand, one source claims that the King will act no matter what the decision.

In a parallel speech to the UN General Assembly, Moroccan Foreign Minister Laraki also appealed for international support. He argued that the assembly, in recommending proposals for the decolonization of Spanish Sahara, must respect the "fundamental law" of the territorial integrity of Morocco and Mauritania. He also criticized Spain repeatedly and reaffirmed Morocco's claim to the Spanish enclaves of Ceuta and Melilla in northern Morocco. He called on Spain to negotiate their return, drawing a parallel between his country's claim to the enclaves and Spain's to Gibraltar.

By reviving its claims to the northern enclaves and linking them to Madrid's claim to Gibraltar, Morocco may be hinting that it will support Spain on Gibraltar in return for an overall settlement on the Sahara and the northern enclaves.

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PORTUGAL

The Portuguese cabinet issued a tough statement last night warning that the government would take action against any groups using violence and calling for a joint meeting between the government and the Revolutionary Council to map out measures that would guarantee stability. The statement endorsed the recent actions of the Popular Democrats and the Socialists in support of the government and indirectly condemned the Communists for supporting the continuing wave of military, political, and industrial agitation.

Mutinies by extreme leftist soldiers have polarized Portugal's factions, and as room for compromise becomes progressively narrowed, violence is becoming more likely.

Socialist Party leader Mario Soares, addressing a Socialist-sponsored pro-government rally in Coimbra on Wednesday, warned that unless a minimum of order and stability is created within a month, Portugal will face great economic hardships. He said the economic problems cannot be solved by disorder or demonstrations like those recently instigated by the far left and applauded by the Communists. Soares was responding to a recent Communist Party statement that the seizures of military units by the far left were legitimate acts and "a lively expression of the struggle of the working people."

Soares said that after 18 months of revolution, the people are tired of disorder. He said the Azevedo government had been formed to create an atmosphere of calm in which the country's problems could be solved.

After the rally, the Socialist demonstrators marched to the headquarters of the Central Military Region to reiterate their support of the government.

The Communists have denounced as a "counterrevolutionary provocation" a pro-government demonstration by the Popular Democrats on Wednesday evening in Porto, which was climaxed by a free-for-all with rock-throwing leftists. About 5,000 Popular Democratic Party supporters clashed with defenders of an artillery post seized by dissident soldiers on Tuesday. The Communists appealed to President Costa Gomes to take "energetic action" against the Popular Democrats, whom it accused of trying to storm the post by force.

Extreme left elements occupying the artillery post reached a standoff with loyalist forces yesterday as the Northern Region commander, General Veloso, again backed away from the use of force to quell the mutiny. Veloso's earlier efforts to enforce discipline have made him the principal target for leftist attacks.

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Veloso is believed to have enough loyal troops to reassert control in Porto if he is ordered to do so, but such orders have apparently not been issued. The hope apparently is that Veloso can restore order without resorting to excessive force and thus risking bloodshed and possibly widening the area of conflict.

Some pro-government military elements, however, appear to be taking steps to prepare for a showdown. [REDACTED]

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USSR

The Soviets have indicated to a European subsidiary of a US grain trading firm that they are seeking short-term grain storage space in Antwerp and other European ports.

This effort suggests that grain shipments from the ports to the interior are running into some delays. The Soviets have reported car shortages at grain ports, probably because the crush of the movement of the grain crop to market is still in progress. The USSR has enough railroad cars and barges to move grain imports, but scheduling for additional shipments has been difficult.

We believe that these difficulties are transient—similar shortages occurred in 1973—and that the USSR will be able to organize both the overseas and the internal transport required to move the large volume of imported grain needed to maintain the economy. [REDACTED]

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ARGENTINA

President Peron apparently is determined to resume her duties next week, despite strong pressure on her to extend her leave or even resign. The government has announced she will return to the capital on October 16 and attend an important Peronist rally the next day.

The US embassy reports that both Acting President Luder and Interior Minister Robledo flew to the presidential retreat on Tuesday to confer with Peron. Luder almost certainly urged her to remain out of the picture. Robledo, said to differ with Luder on the issue all along, may well have urged her to come back.

When the two men reached Buenos Aires late Tuesday, they refused to reveal the results of their talks. Robledo said only that the President would be at the rally and that all else was speculation.

Meanwhile, opinion in political, press, and military circles continues to harden against Peron. According to a press account, the commander of the air force also visited the President to tell her that the military wanted her to prolong her vacation.

The officers regard the controversy over her role and her demonstrated inability to lead as detrimental to the pursuit of their principal goal, the suppression of terrorism. In recent days, the administration has created two new bodies designed to streamline the anti-guerrilla effort and give the military a stronger hand in the fight.

The generals and Luder will almost certainly step up their efforts to prevail on Peron to stay away. Another embassy source reports that if other arguments fail, Luder is prepared to threaten the President with a full-scale investigation into long-standing charges that she blatantly misused public funds.

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FOR THE RECORD



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WEST GERMANY - POLAND: West German Foreign Minister Genscher arrived in Poland yesterday and signed an agreement providing West German economic aid in return for the repatriation of 125,000 ethnic Germans over the next four years. The agreement was worked out by Chancellor Schmidt and Polish party boss Gierek during the European security conference summit in July. It specifies that Bonn will make a lump-sum payment of about \$500 million to a Polish pension fund and extend a low-interest loan of about \$400 million. Genscher also met with Gierek and other high-ranking officials to discuss bilateral relations, particularly the future development of economic cooperation.



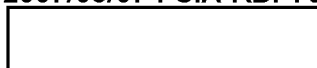
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NETHERLANDS: According to press reports, Defense Minister Vredling has bowed to NATO and parliamentary opposition and announced that the navy's Neptune reconnaissance aircraft will remain operational. The squadron's deactivation had been proposed earlier as part of proposed cuts in the Netherland's defense budget. Critics of the planned elimination of the squadron stressed the adverse effect it would have on allied submarine surveillance and antisubmarine warfare capabilities.



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ANNEX

Panama Still Committed to Canal Talks

This Annex was prepared in consultation with the Bureau of Intelligence and Research, Department of State, and the Defense Intelligence Agency.

US-Panamanian negotiations for a new canal treaty have again run into several dangerous snags. In September, several incidents raised the possibility of serious disorders and suspension of the talks. The government of Panamanian strongman Torrijos will probably try to keep demonstrations within bounds as long as the talks seem to the Panamanians to offer the prospect of success.

For now, the Torrijos government sees talks rather than violence as being in its best interests. It has thus far displayed a convincing ability to control Panamanian reaction to the talks.

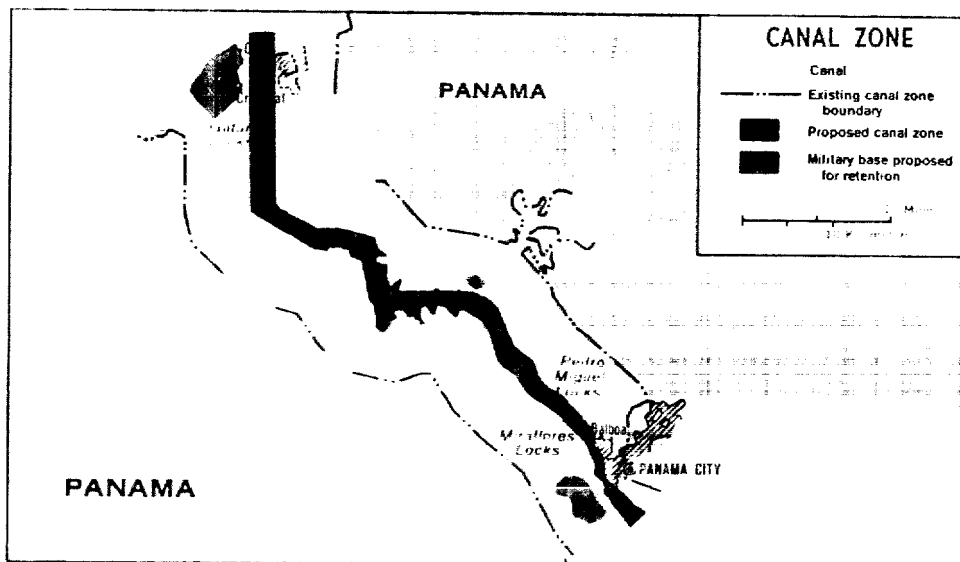
Torrijos appears confident he can continue the negotiations and maintain his position through 1976. If at some point he became convinced that the talks would not produce an agreement acceptable to the Panamanians, he probably would permit some violence in an effort to force more acceptable terms on the US.

A Change in Mood

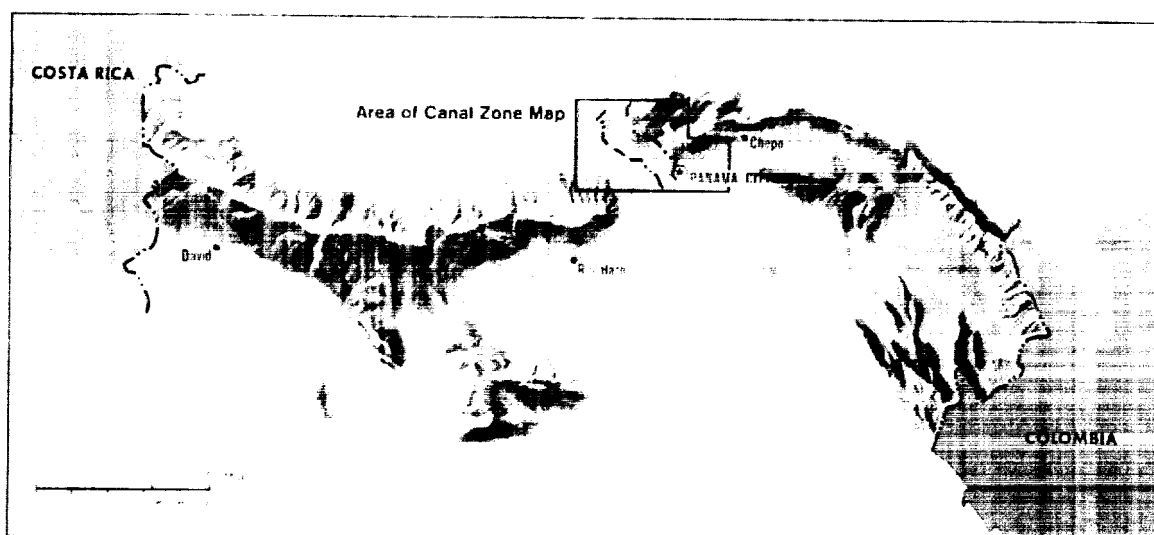
Ambassador Bunker returned to Panama on September 7, following a four-month pause in the treaty talks. Although the renewal of negotiations had generated considerable optimism, the mood quickly changed as a result of a series of developments, including:

- The release by leftist students of purloined Foreign Ministry documents setting out several of the initial conceptual accords reached by US and Panamanian negotiators.
- Intense criticism in Panama's controlled media of statements by US officials—including Secretary Kissinger—construed as indicating a hardened US position.
- An angry private reaction from Torrijos to US statements and a discouraged reaction from the Panamanian negotiating team after it heard the new US proposals.

PANAMA



The Canal Zone showing reduced zone and base holdings Panama proposes for US retention.



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--The publication by the Panamanian government of confidential positions of the two sides and its public and emphatic rejection of several US negotiating proposals.

--The stoning of the US embassy and the Panamanian Foreign Ministry by students protesting the course of the negotiations and the Torrijos government's position in the talks.

According to the Panamanians' public statement, the major sticking points in the negotiations are:

--Duration: Panama proposes that no treaty extend beyond the end of the century, while the US seeks a longer term role in defense of the canal.

--Defense Sites: Panama proposes that the US retain no more than 3 instead of 14.

--Lands and Water: Panama proposes that the US retain for canal operations only a strip of land equivalent to 10 percent of the present Canal Zone.

Disagreement extends to other issues, such as compensation and canal expansion. While these issues are stumbling blocks, the differences have not been so clearly—and publicly—spelled out.

With the imperiled negotiations as backdrop, the government is preparing for the celebration on October 11 of the anniversary of the revolution in 1968 that brought Torrijos to power. The government is apparently aiming at a massive turnout, and its handling of the event will reflect to some extent its policy line toward the negotiations.

Panamanian Strategy

Right now, the Panamanians seem committed to the negotiations as the only rational policy. Their dismay over the latest round stems partly from the unrealistic optimism that preceded the arrival of Ambassador Bunker in September.

Torrijos is prone to visceral reactions, but on balance he probably believes that he can still negotiate an acceptable treaty that will eventually end the US presence and thus assure him an honored place in Panamanian history.

At the same time, the Panamanians have complicated the negotiations for themselves with their public declarations; they have locked themselves into positions that sharply reduced their bargaining range. The Panamanians are least likely to budge from their repeated statements that the US presence must expire no later than the end of the century.

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There is probably more give on other issues. Panama's media, for example, have stressed that extreme opposition to US bases is unrealistic. The government has drawn a public contrast between its territorial proposal and that of the US and can later point up the extent of US concessions in a compromise—especially if Panama gains its point that the US give up holdings near the terminals of Panama City and Colon.

Still, Panama will yield ground very grudgingly on any issue. The Panamanians believe the US is under considerable international pressure to accept their positions and that time is on their side. Panamanian media consistently stress that the treaty battle may be lengthy and that the people should not respond to provocations to violence, as these are designed to blunt Panamanian aspirations by derailing the talks.

Recently, the media have specifically noted that the treaty talks may drag on through 1976 because the administration of President Ford does not want the treaty to be a campaign issue. The public is clearly being prepared for the possibility of at least another year of talks.

Torrijos has always been reluctant to offer specific counterproposals to US positions; he apparently worries that the US negotiators might accept and he would find himself settling for less than he should have. The Panamanian strongman also fears accepting a treaty draft that would not win an overwhelming vote in the referendum he has promised. These factors and Torrijos' apparent expectations that the talks may continue through 1976 argue against early Panamanian compromises.

In prolonged negotiations, Torrijos will continually feel the need to demonstrate that he is pursuing Third World goals in order to refurbish his "revolutionary" credentials at home. He is planning to visit Cuba around the end of the year, and he may establish diplomatic relations with both the USSR and China. He must also show that he is keeping up the pressure on the US. With this in mind, he plans to invite all Latin American chiefs of state to Panama next year for a pan-American anniversary celebration that will highlight Canal Zone "colonialism."

Panama's assumption of a seat on the UN Security Council in January 1976 will give it new leverage. These and other well-publicized international moves should help keep most domestic critics at bay.

Pressures on Torrijos

Torrijos and other government spokesmen often cite pressures on the government and the possibility of a popular explosion, and to some extent these exist.

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The business community is largely suspicious of and uncomfortable with Torrijos. Since he took power, however, businessmen have lost their political clout and cannot do much more than grouse. Recognizing this, most businessmen have for the time being accommodated themselves to Torrijos and do not represent a political threat.

The economy is a source of some concern because growth is down from previous years, but we do not see this now affecting the treaty issue in any meaningful degree. The Torrijos government's need for financing is not so severe as to force compromise in its negotiating position. The Panamanian administration is also reasonably adept at manipulating public opinion by controlling the media to a large extent.

For all practical purposes, the real danger of an explosion is from the students, an unpredictable group. Students are a significant political force in Panama. They sparked the riots in 1964 that left many dead and wounded and caused a break in US-Panamanian relations. Those riots remain an emotional pegpoint for Panamanian nationalism.

The government controls the largest student organization and has manipulated it to good advantage. The more violence-prone ultraradicals oppose the government and its stand in the treaty talks (indeed, they deride Torrijos' "revolution") and have played the major role in organizing recent demonstrations, including the stoning of the US embassy in September. The National Guard, however, has demonstrated that it can contain student demonstrations when it wants to. It closely monitors student planning.

The Torrijos administration is conducting a widespread propaganda campaign to isolate the ultraradical students and cast them as the unknowing tools of the oligarchs and US provocateurs—a line that will stand Torrijos in good stead if he has to use force to keep them in line.

There are obvious dangers in dealing with the students, who are keenly aware of the government's sensitivity to their protests and its demonstrated responsiveness. National Guard personnel, under orders to avoid a confrontation, have found that students do not always obey the instructions of guard officers, and occasional defiance of the guard could easily whet radical appetites. Thus, unplanned violence or an escalation resulting from government miscalculation cannot be ruled out. If students got out of control and a confrontation with the guard ensued, Torrijos could suddenly find himself in the unaccustomed position of being a major target of student dissidence.

For the present, however, student dissent remains largely at a level that serves Torrijos' purposes in pressuring the US to agree to Panamanian treaty terms. He almost certainly recognizes that uncontrolled violence would not be in his interests at this time. We believe he has the capability to keep the students in line and—at least for the present—the motivation to do so.

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Anniversary

With this in mind, we believe the government will aim at providing a massive show of support for the administration tomorrow, unifying the public behind its goals and strategy. In contrast to the three previous years, when the celebration was quite muted, the government is apparently seeking a large-scale turnout—perhaps as many as 100,000 people. The rhetoric will probably be severe—Panama will also be marking the 50th anniversary of the renters' strike in 1925, when US troops put down demonstrations in Panama City at the request of the Panamanian government.

In whipping up enthusiasm, Torrijos runs the danger that radicals may seek to take advantage of the situation to stir up violence. If hotheads attempt to enter the zone and violence results, this may trigger a crowd reaction. The government is concentrating on a positive show of unanimity, however, and National Guard troops will be on the scene in large numbers.

As Negotiations Continue

As long as Torrijos feels he has a chance of securing an acceptable treaty, he is likely to continue his present strategy. Torrijos is often quoted as having said he will lead his people into the Canal Zone "when the right time comes," but we do not believe he sees or seeks that "right time" in the near term as long as negotiations continue.

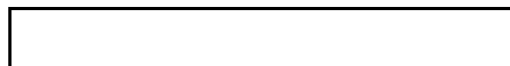
Although Torrijos is frequently upset by events related to the negotiations—such as the Snyder amendment in the US Congress that attempted to cut off funding for the negotiations—he maintains his belief that the US executive branch is bargaining in good faith. Probably confident that he can maintain his position—the National Guard is the only force capable of removing him, and it appears to back him solidly at present—he will continue to focus on the bargaining table to gain his objectives.

If negotiations break down, however, or if the US executive is denied the funds or the authority to continue the talks, Torrijos will undoubtedly be frustrated and angered and may come to feel he has been duped. In that case, he would first step up international pressure as best he could and gradually loosen restraints on student demonstrators. Serious violence, resulting from a possible foray into the Canal Zone itself, would be increasingly likely.

As a last but practical resort, Torrijos would be willing to have riots and student martyrs in an effort to bring the US back to the negotiating table under renewed international pressures

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